

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

CONTROLS OVER GOVERNMENT BILLS OF LADING

Report No. 98-016

November 3, 1997

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Acronyms

AFB	Air Force Base
DFAS	Defense Finance and Accounting Service
GBL	Government Bill of Lading
GBL-ITS	Government Bill of Lading-Issuing and Tracking System
GBLOC	Government Bill of Lading Organization Code
ITS	Issuing and Tracking System
MTMC	Military Traffic Management Command



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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November 3, 1997

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)
ASSISTANT DEPUTY UNDER SECRETARY OF DEFENSE
(TRANSPORTATION POLICY)
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on Controls Over Government Bills of Lading
(Report No. 98-016)

We are providing this report for your review and comment. This audit was requested by the Under Secretary of Defense (Comptroller) to review the paper Government Bill of Lading validation prior to payment. Management comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. As the result of management comments, we redirected Recommendations 1. and 2. to both the Director, Defense Finance and Accounting Service, and the Commander, Military Traffic Management Command. Therefore, we request that the Director, Defense Finance and Accounting Service, reconsider his position and the Commander, Military Traffic Management Command, provide comments on the recommendations in response to the final report by January 9, 1998.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Richard B. Bird, Audit Program Director, at (703) 604-9175 (DSN 669-9175) or Mr. Jack L. Armstrong, Audit Program Manager, at (317) 542-3846 (DSN 699-3846). See Appendix C for the report distribution. The audit members are listed inside the back cover.

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Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 98-016
(Project 6FI-5016)

November 3, 1997

Controls Over Government Bills of Lading

Executive Summary

Introduction. The Under Secretary of Defense (Comptroller) requested the audit following concern expressed in November 1995 by the Transportation Payment Reengineering Steering Committee about the lack of management controls over the payment of paper Government Bills of Lading (GBLs). A GBL is a document establishing the terms of a contract between a DoD transportation office and a commercial carrier to move freight or personal property to a specified point for a specified charge. Government Bills of Lading are negotiable instruments that may be printed by computer on paper, or they may be preprinted hard copy forms. Once the freight or personal property has been shipped, commercial carriers invoice the Defense Finance and Accounting Service (DFAS) for payment. From June through September 1996, the DFAS paid 629,442 paper GBLs totaling \$580.3 million.

The Assistant Deputy Under Secretary of Defense (Transportation Policy) issued a memorandum on February 6, 1996, to improve the management controls over GBLs. Until processing and payment procedures for electronic GBLs are fully implemented, management controls over the paper GBL process needed strengthening to eliminate opportunities for fraud and erroneous payments. The new processing procedures for GBLs were to be implemented by March 29, 1996.

Audit Objectives. The original objective of the audit was to assess the existing management controls associated with GBL payments for both the manual and Electronic Commerce/Electronic Data Interface processes. Additional management controls required in the manual process were also to be identified. These included controls at transportation offices that should be implemented to ensure valid GBL payments before DFAS makes GBL payments. We modified the objective to assess the implementation of the paper GBL pre-payment validation process. Our scope and methodology are discussed in Appendix A.

Audit Results. The management controls over the payment of paper GBLs need improvement. Specifically, DoD payment offices generally did not perform the pre-payment validation, nor did they suspend payments when appropriate. Also, the GBL-Issuing and Tracking System files used for the pre-payment validation process were inaccurate and incomplete. The transportation payment and shipping organizations did not adequately implement the February 6, 1996, DoD guidance. As a result, the payment offices paid approximately \$576.2 million, from June 1 through September 30, 1996, for 598,992 paper GBLs without them being validated. The inadequate pre-payment validation increased the risk for making erroneous, duplicative, or fraudulent payments.

The DoD management control program had identified the GBL payment system as having material control weaknesses. The planned management actions to correct the

weaknesses did not address the pre-payment validation of paper GBLs. Appendix A describes the management controls assessed and discusses the material control deficiencies found by the audit.

Management Actions. On December 5, 1996, the Under Secretary of Defense (Comptroller) instructed the DFAS and the Military Traffic Management Command (MTMC) to develop a plan to correct the validation problems. Since then, progress has been made in implementing the paper GBL pre-payment validation plan. All three transportation offices are now performing pre-payment validation of freight and personal property GBLs. However, the transportation payment offices have not suspended payments nor performed research on mismatched GBLs. Furthermore, DFAS has not assessed penalties against transportation offices that caused the mismatches, in accordance with the December 1996 plan.

Summary of Recommendations. We recommend that the Director, Defense Finance and Accounting Service, and the Commander, Military Traffic Management Command, suspend payments on mismatched GBLs until the GBLs have been researched. We also recommended that the Director and the Commander assess a penalty on the transportation offices when a mismatched GBL that has been found to be valid has to be researched.

Management Comments. The Deputy Director for Finance, Defense Finance and Accounting Service, concurred with the intent of the recommendations. The Deputy Director stated that DFAS sends mismatched GBL numbers to MTMC for research. DFAS is not routinely suspending payment of mismatched GBLs because it requires an extensive manual effort. If MTMC notifies DFAS that a GBL is invalid before it is paid, then DFAS suspends the payment. If notice is received that a GBL is invalid after it is paid, then DFAS recoups the funds or makes an offset of future payments. The Deputy Director also stated that to assess an additional charge would create an administrative burden. Unsolicited comments were provided by the Defense Logistics Agency and by the Commander, Marine Corps Logistics Base, Albany, disagreeing with the recommendations. The Defense Logistics Agency stated that implementing the recommendations would place a hardship on the carrier industry. The Commander stated that implementing the recommendations would penalize the shippers. Part I contains a complete discussion of management comments and Part III contains the full text of management comments.

Audit Response. The Director, Defense Finance and Accounting Service, comments to the recommendations were partially responsive. The MTMC is only performing a partial research of those GBLs when it is able to identify the issuing transportation office based on the Government Bill of Lading Organization Code (GBLOC). A copy of the actual GBL is not being compared to determine the actual or correct transportation office when the incorrect GBLOC has been reported. According to MTMC personnel, MTMC has not performed research on the Albany and Norfolk GBLs. As a result of management comments, we redirected this recommendation to both DFAS and MTMC. We continue to believe that a disincentive must be created so that the number of mismatched GBLs is reduced. We request additional comments on both recommendations by January 9, 1998.

We disagree with the comments provided by the Defense Logistics Agency and the Commander, Marine Corps Logistics Base, Albany.

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Part I - Audit Results

Audit Background

The Under Secretary of Defense (Comptroller) requested that we perform this audit. In November 1995, the Transportation Payment Re-engineering Steering Committee expressed concern about the lack of management controls over the payment of paper Government Bills of Lading (GBLs). The Transportation Payment Re-engineering Steering Committee then developed a plan for DoD to validate paper GBLs prior to payment. As a result, on February 6, 1996, the Assistant Deputy Under Secretary of Defense (Transportation Policy) issued a memorandum to improve the management controls over the payment of paper GBLs.

Government Bills of Lading. A GBL is a document establishing the terms of a contract between a DoD transportation office (usually the shipper) and a commercial carrier to move freight or personal property to a specified point (usually a cosigner or receiver) for a specified charge. GBLs are negotiable instruments. GBLs may be printed on paper by computer or they may be preprinted hard copy forms. Each GBL is assigned a unique number that is not to be replicated.

The Military Traffic Management Command (MTMC) is responsible for establishing the policies and procedures for the management of freight and personal property shipments. Transportation offices are DoD organizations, DoD contractors, or other Government organizations issuing GBLs and receiving shipments. Each shipper and each receiver are identified by a unique Government Bill of Lading Organization Code (GBLOC), which is a four-character alpha code.

Once the freight or personal property has been shipped, commercial carriers invoice the Defense Finance and Accounting Service (DFAS) for payment. GBLs may be paid by electronic data interchange or paid manually for hard copy (paper) forms. The DoD has three transportation payment offices: the Marine Corps Logistics Base Albany, Georgia; DFAS Indianapolis Center, Indiana; and DFAS Operating Location, Norfolk, Virginia. From June 1 through September 30, 1996, DFAS paid 629,442 freight and personal property paper GBLs for \$580.3 million. Table 1 shows the number of GBLs processed by transportation payment office.

**Table 1. Paper GBLs Processed by Payment Office
(June 1 through September 30, 1996)**

<u>Payment Office</u>	<u>Number of GBLs Paid</u>	<u>Percent of GBLs Paid</u>	<u>Amount Paid (\$ Millions)</u>	<u>Percent Paid</u>
Albany	31,700	5.0	\$ 50.1	8.6
Indianapolis*	483,042	76.8	389.6	67.2
Norfolk	<u>114,700</u>	<u>18.2</u>	<u>140.6</u>	<u>24.2</u>
Totals	629,442	100.0	\$580.3	100.0

* The number of personal property GBLs paid and amount paid was a DFAS estimate.

Management Control Requirements. On February 6, 1996, the Assistant Deputy Under Secretary of Defense (Transportation Policy) issued a memorandum directing the use of new GBL processing procedures. The purpose was to improve management controls over the paper GBL payment process. Until electronic processing and payment procedures for GBLs are fully implemented, management controls must be strengthened over the paper GBL process to eliminate opportunities for fraud and erroneous payments. The following GBL processing procedures were to have been implemented by March 29, 1996.

GBL Issuing and Tracking System. The MTMC was designated as the central control point for GBLs. The MTMC was also tasked to develop a method to validate all paper GBLs prior to payment. The method MTMC created was a master data base, the GBL Issuing and Tracking System (GBL-ITS). The GBL-ITS was to show every GBLOC and GBL number assigned to every DoD shipping or receiving office since February 1994. In addition, four GBL data files were developed: valid freight GBLs, invalid and canceled freight GBLs, valid personal property GBLs, and invalid and canceled personal property GBLs. Each file showed the particular GBLOC and the range of GBL numbers associated with the GBLOC.

To develop GBL-ITS, MTMC requested that all DoD transportation offices prepare an inventory of all GBLs issued, canceled, or destroyed since February 1994, in addition to all GBLs on hand. The MTMC also used the General Services Administration log of GBL numbers issued to DoD organizations. The MTMC was to maintain and update the GBL-ITS files and provide the files to the three transportation payment offices.

Before March 1996, transportation offices obtained paper GBLs and GBL numbers directly from the General Services Administration. In March 1996, the DoD and the General Services Administration made an agreement that made MTMC responsible for obtaining GBL numbers from the General Services Administration. The MTMC would then issue GBL numbers to the transportation offices and update GBL-ITS files. As a measure to ensure the

reliability of the data in GBL-ITS, transportation offices were instructed to obtain GBLs directly from MTMC, not from the General Services Administration.

Payment Offices. The Under Secretary of Defense (Comptroller) considered paper GBLs validation prior to payment as the minimum management control. Prior to GBL-ITS, the transportation offices did not have an independent method to validate GBL numbers before payment. By May 31, 1996, all transportation payment offices were to perform a validation before paying the carrier to ensure that each GBL submitted for payment matched the GBL-ITS files by GBLOC and corresponding GBL number. If the GBL did not match the information in the GBL-ITS, the GBL payment would be suspended until the GBL was researched to determine whether it was valid.

Transportation Offices. The Military Services and Defense agencies issued instructions to the respective transportation offices to report all GBL forms and numbers that had been assigned to MTMC since February 1994. In conjunction with MTMC, the Military Services and Defense agencies were to establish the maximum number of pre-numbered GBLs for transportation offices or shipping organizations to keep on hand. The excess stocks of GBLs were to be destroyed and their numbers reported to MTMC by April 30, 1996.

The transportation offices were also responsible for ensuring that GBLs were properly accounted for and secured, and for maintaining an accounting register of all GBLs issued, on-hand, lost, or stolen. The GBLs and register were to be reviewed every 6 months. Preprinted GBL forms were to be locked in a secured area or cabinet. Access to computer generated GBLs was to be restricted to authorized personnel only.

Audit Objectives

The audit was announced on October 27, 1995. The original objective of the audit was to assess the existing management controls associated with GBL payments in both the manual and Electronic Commerce/Electronic Data Interface processes. In addition, additional management controls required in the manual process to ensure valid GBL payments were to be identified, including those controls at transportation offices that should have been implemented before DFAS made GBL payments. Based on a request from the Under Secretary of Defense (Comptroller) in December 1995, we modified the objective to assess the implementation of the paper GBL validation process. Our audit scope and methodology and the management control program are discussed in Appendix A.

Pre-Payment Validation Process

The management controls over the payment of paper GBLs needs improvement. Specifically, DoD payment offices generally did not perform the pre-payment validation nor did they suspend payments when appropriate. Also, the GBL-ITS files used for the pre-payment validation process were inaccurate and incomplete. The transportation payment and shipping organizations did not adequately implement the February 6, 1996, DoD guidance. As a result, the payment offices paid approximately \$576.2 million, from June 1 through September 30, 1996, for 598,992 paper GBLs without being validated. The inadequate validation increased the risk for making erroneous, duplicative, or fraudulent payments.

Validation Plan Implementation at DoD Payment Offices

The payment offices did not adequately implement validation of paper GBLs. Albany and Norfolk did not perform any validation of paper GBLs received for payment. Indianapolis used an incomplete GBL data base to match the GBL numbers with the GBL-ITS files, resulting in only 30,450 freight GBLs being validated before payment from June 1 through September 30, 1996. In addition, Indianapolis did not perform any validation of personal property GBLs. None of the three payment offices suspended payments on mismatched GBLs as required by the Assistant Deputy Under Secretary of Defense (Transportation Policy). Table 2 compares the number of paper GBLs that were validated to the total paper GBLs processed.

**Table 2. Paper GBLs Pre-payment Validation by Payment Office
(June 1 through September 30, 1996)**

<u>Payment Office</u>	<u>Number of Paper GBLs Processed</u>	<u>Number of Paper GBLs Validated</u>	<u>Number of Paper GBLs Not Validated</u>	<u>Value of GBLs Not Validated (\$ Millions)</u>
Albany	31,700	0	31,700	\$ 50.1
Indianapolis*	483,042	30,450	452,592	385.5
Norfolk	<u>114,700</u>	<u>0</u>	<u>114,700</u>	<u>140.6</u>
Totals	629,442	30,450	598,992	\$ 576.2

* The number of personal property GBLs paid and amount paid was a DFAS estimate.

Albany Payment Office. The GBL payment division at Albany did not validate 5,500 freight and 26,200 personal property GBLs before they were paid from June 1 through September 30, 1996. Albany personnel stated that they could not obtain the GBL-ITS files from DFAS or MTMC to perform the GBL number match. On October 16, 1996, we provided the Internet address to Albany so the GBL-ITS files could be obtained. On December 4, 1996, we

were informed by Albany personnel that they had begun to validate freight and personal property GBLs received for payment; however, Albany discontinued its validation process by the end of December 1996. According to Albany personnel, the process was discontinued because of an error in the computer program. In March 1997, Albany restarted the validation of freight and personal property GBLs.

Norfolk Payment Office. DFAS-Norfolk did not implement GBL validation because it did not have the capability in its current automated system. From June 1 through September 30, 1996, Norfolk paid 44,900 freight, 42,000 personal property, and 27,800 supplemental GBLs. To perform the GBL validation prior to payment, GBLs would have been entered manually into an off-line system and matched to the GBL-ITS. Norfolk personnel told us GBL validation was not cost effective because the GBL-ITS was unreliable, based on the Indianapolis mismatch results. DFAS management personnel informed us that Norfolk started to perform validation of GBLs prior to payment in May 1997.

Indianapolis Payment Office. DFAS-Indianapolis was the only payment office to start GBL validation prior to payment. However, only a limited validation was performed of freight GBLs because the GBL-ITS files were inaccurate. In addition, no validation was performed of personal property GBLs.

Indianapolis did not suspend payments on any mismatched GBLs after May 31, 1996, which contravened the February 6, 1996, guidance issued by the Assistant Deputy Under Secretary of Defense (Transportation Policy). Indianapolis personnel stated that it would consume too many labor resources to perform the research because the mismatch rate was simply too high. The rate averaged about 22.5 percent from June 1 through December 31, 1996. Indianapolis managers told us that the GBL number mismatch rate would have to decrease to about 1 percent in order for research to be justified.

Freight GBLs. The 483,042 paper GBLs processed by Indianapolis consisted of 255,600 in personal property and 227,442 in freight GBLs. We calculated that only 30,450 of the 227,442 paper freight GBLs were validated by Indianapolis before payment from June 1 through September 30, 1996. Freight GBLs were processed through the Defense Transportation and Reporting System, which produced an electronic file to be compared with the GBL-ITS files. Indianapolis used the exception file (GBLs that did not pass the Defense Transportation and Reporting System edit checks). This was the wrong file to perform the pre-payment validation because it resulted in erroneous duplicate GBL numbers. Although electronic files with the detailed results of the Indianapolis GBL matching were sent weekly to MTMC, 4 months passed before the error was discovered.

Although only 13.4 percent of the total paper freight GBLs were validated before payment, the mismatch rate was sufficient to support Indianapolis' concern on the accuracy and completeness of the GBL-ITS files. Of the 30,450 GBLs, 7,400 (24.3 percent) were mismatches. As a result, payments were not suspended for the mismatches, nor were the mismatches researched to determine the causes.

Personal Property GBLs. Validation of personal property GBLs prior to payment was not performed because the automated personal property system could not produce the electronic files needed. The Indianapolis personnel estimated that 255,600 personal property GBLs were paid from June 1 through September 30, 1996. Personal property GBLs were paid through a different automated system from the Defense Transportation and Reporting System, and each GBL would have to be entered manually to compare it with the GBL-ITS files. Indianapolis chose not to devote the resources to implement the validation of personal property GBLs until the personal property system was converted to the Defense Transportation and Reporting System. This decision was made because of the inaccuracies in the GBL-ITS files. According to DFAS personnel, the conversion started in April 1997.

Government Bill of Lading-Issuing and Tracking System

The GBL-ITS files used for the validation process were inaccurate and incomplete for paper freight GBLs. During the period from June through December 1996 Indianapolis processed 384,029 paper freight GBLs (Table 3) of which 86,548 (22.5 percent) did not match the GBL-ITS files. The Indianapolis mismatch rate was too high to suspend payments. Our analysis of the GBL mismatch data showed:

- o The high number of mismatches were attributed to GBL numbers and GBLOCs not in the GBL-ITS files.
- o There were few GBL mismatches with the GBLs issued and controlled by MTMC.

Indianapolis Mismatch Rates. Of the 384,029 paper freight GBLs, 227,442 were paid by Indianapolis from June 1 through September 30, 1996. As discussed in the report section on Indianapolis "Freight GBLs," the June through September GBLs were not adequately validated. As a result, we requested that Indianapolis re-test the GBL-ITS files using data from the Defense Transportation and Reporting System master file, the correct file. The re-test resulted in a mismatch rate of 28.8 percent, or 65,432 freight GBLs.

From October through December 1996, Indianapolis actually validated 156,587 of the 384,029 freight GBLs before payment. Of the 156,587 GBLs matched to the GBL-ITS file, 21,116 (13.5 percent) were mismatches. Although the 13.5 percent mismatch rate indicates an improvement in the accuracy and completeness of the GBL-ITS since September 30, the mismatch rate is still significantly above the 1 percent mismatch rate to suspend payments. Table 3 shows the monthly rate of matching for Indianapolis.

Table 3. Number of Paper Freight GBL Mismatched Against the GBL-ITS Files

<u>Month</u> <u>(1996)</u>	<u>Total GBLs</u> <u>(000)</u>	<u>Number GBLs</u> <u>Mismatched (000)</u>	<u>Percent</u> <u>Mismatched</u>
June	81.3	28.9	35.6
July	62.5	14.6	23.4
August	49.5	13.3	26.8
September	34.2	8.6	25.3
October	38.1	4.5	11.8
November	56.4	10.2	18.1
December	<u>62.0</u>	<u>6.4</u>	10.3
Totals	384.0	86.5	

Analysis of the Mismatched GBL Numbers. We analyzed 65,432 of the 86,548 mismatches processed from June 1 through September 30, 1996. Of the 65,432 mismatches, 57,722 (88.2 percent) of the GBL numbers were not in the GBL-ITS files. The remaining 7,710 (11.8 percent) GBLs did not match because the GBLOC was either not in the GBL-ITS file or the GBL-ITS had an incorrect GBLOC.

GBL Numbers Not in the GBL-ITS Files. The 57,722 (88.2 percent) GBL numbers that were not in the GBL-ITS files was the largest number of mismatches. The MTMC had developed the GBL-ITS files from input from the transportation offices and the General Services Administration logs. An analysis of 30,148 of these 57,722 mismatches issued by 427 transportation offices showed that 10,051 mismatches resulted from GBL numbers and GBLOCs not in GBL-ITS files. The 10,051 mismatches indicate that 119 transportation and shipping offices did not report its GBLs to MTMC. The remaining 20,097 mismatches resulted from the GBL numbers not being in GBL-ITS files; however, the GBLOCs were in the file. The 20,097 mismatches indicate two causes: either 308 transportation offices were reporting inaccurate and incomplete information, or the information developed from the General Services Administration logs was inaccurate. We could not determine the specific cause for 27,574 of the GBL mismatches because the data were incomplete.

Transportation Office Reported Data. Transportation offices did not completely comply with the MTMC data call for GBLs on hand and the GBLs that had been issued, canceled, or destroyed since February 1994. Appendix B provides details of 11 transportation offices contacted or visited. The number of GBLs in the GBL-ITS files was understated because of inaccurate reporting for five of the transportation offices. Four of the five transportation offices did not report all of its GBL numbers to MTMC. Personnel at two transportation offices stated that they had misinterpreted the instructions and reported only a portion of the GBL numbers.

One transportation office was not aware of the requirement to report GBL data. A second transportation office did not adequately control the GBL numbers or forms. Although this second office was only authorized a 2-month supply of preprinted GBLs, it actually had a 1-year supply. This transportation office did not properly maintain accountability and control over its preprinted GBLs.

General Services Administration Developed Data. The General Services Administration logs, a manual record of GBLs issued to transportation offices, provided minimal and incorrect information. The use of General Services Administration logs for the period from February 1994 through March 1996 was a primary source for the development of the GBL-ITS files. The General Services Administration logs did not contain the GBLOC for GBL numbers issued to DoD transportation offices. DoD installations often have more than one shipping organization or transportation office, and each shipping organization will have its own GBLOC. These shipping organizations may be tenant organizations; such as the Defense Distribution Depot Kelly, which is a Defense Logistics Agency organization located on Kelly Air Force Base (AFB), Texas. As a result, the possibility exists that GBL numbers transcribed from the General Services Administration log were posted to an incorrect GBLOC in GBL-ITS.

GBL numbers issued to one DoD transportation office were also posted to a series of GBL numbers issued to another transportation office on the General Services Administration log. This resulted in GBLs being identified as invalid when processed by Indianapolis for payment. Appendix B shows that 7 of the 11 transportation offices reviewed had GBL numbers assigned to an incorrect GBLOC.

GBLOCs Incorrectly Reported or Not Reported in the GBL-ITS Files. The GBL numbers were in the GBL-ITS files but the GBLOCs were not for the remaining 7,710 (11.8 percent) mismatches. These mismatches resulted either from the improper use of a default GBLOC or from transportation offices erroneously using another transportation organization's GBL numbers or GBLOC.

A default GBLOC is a universal GBLOC and is not assigned to any specific shipping organization. To process GBLs, the Defense Transportation and Reporting System requires that both the shipper and the co-assignee have a valid GBLOC. Otherwise, the GBL does not get paid. Because valid shipments are made by and to non-government organizations, such as Government contractors, a default GBLOC has to be assigned. The default GBLOC used by Indianapolis was "IOOI."

Default GBLOC Number. Over 4,750 of the mismatched GBLOCs were caused by the use of the default GBLOC number "IOOI." However, the default GBLOC is not in the GBL-ITS files and is subject to improper use. We were informed by DFAS Indianapolis that they performed a random sample of 114 GBLs that used GBLOC "IOOI." The Indianapolis review showed that "IOOI" was being misused by both DFAS and shipper, Table 4 shows the results.

Table 4. Results of Indianapolis Review of GBLOC "IOOI"

<u>GBLOC Discrepancy</u>	<u>Number of GBLs</u>	<u>Percent of GBLs</u>
GBLOC was blank, DFAS used "IOOI" to process the GBLs	70	61.4
Shipper used "IOOI"	37	32.5
DFAS incorrectly used the co-assignee GBLOC which was "IOOI"	5	4.4
Shipper used an invalid GBLOC and DFAS used "IOOI" to process the GBLs	<u>2</u>	<u>1.7</u>
Totals	114	100.0

In addition, we reviewed the Indianapolis sample of 114 GBLs and found that 54 GBLs were issued by shipping organizations that had assigned GBLOCs in the GBL-ITS data base. Indianapolis assigned "IOOI" to 33 GBLs that 12 shipping organizations had left blank on the GBL form. An MTMC shipping organization located in Puerto Rico issued 14 GBLs using the "IOOI" GBLOC. Table 4 shows that 7 GBLs had invalid or incorrect GBLOCs.

Use of Incorrect GBL Numbers. The remaining 2,960 mismatches were made by transportation offices erroneously using another transportation organization's GBL numbers or GBLOC. Two of the 11 transportation offices issued GBLs with numbers that were assigned to other DoD installations. Although the GBLs were valid, the validation process would identify the GBLs as being invalid. Without a correct GBLOC on a GBL, the payment offices would perform unnecessary research on an otherwise valid GBL. Details are provided in Appendix B of this report.

Erroneous GBL Payments. Analysis of the Indianapolis GBL matching data identified 4,327 duplicate GBL numbers from June 1 through September 30, 1996. Five duplicate numbers were selected to research. Two duplicate payments for \$797.40 were found and two potentially duplicate payments for \$487 were found before the duplicate payments were made. We referred the duplicate GBL payments to the Operation Mongoose office of DFAS, and DFAS Indianapolis has started to research the duplicates.

We believe that analysis of the GBL matching data and research of the mismatches would identify other erroneous payments. Researching GBL mismatches is a basic management control that was missing. The GBL payments have to be suspended and GBLs researched in order to identify erroneous billings. The GBL research would have an additional benefit in that GBL-ITS file errors could be detected and corrected thus improving the accuracy of GBL-ITS.

MTMC Issued GBLs. As shown in Table 5, the GBL numbers supplied by MTMC had fewer mismatches than those supplied by the General Services Administration. Prior to March 29, 1996, DoD transportation offices obtained GBLs and GBL numbers directly from the General Services Administration.

Starting March 29, 1996, MTMC was to be the only DoD Component authorized to request and obtain GBL numbers from the General Services Administration. This authority was also based on an agreement between DoD and the General Services Administration. The MTMC would then supply GBL numbers to DoD transportation offices or shipping organizations, and the Army forms distribution center would distribute pre-numbered paper GBLs to all DoD shipping organizations. The GBLs supplied by MTMC were easy to identify because MTMC uses a unique number series of M-1,000,000.

**Table 5. Indianapolis Mismatches by Supplier
(June 1 through December 31, 1996)**

<u>Transportation Office Supplier of GBLs</u>	<u>Total Paper GBLs Paid (000)</u>	<u>Number of Mismatches (000)</u>	<u>Percent of Mismatches</u>
MTMC*	43.2	0.8	1.8
General Services Administration	<u>340.8</u>	<u>85.7</u>	25.1
Totals	384.0	86.5	

* This number of MTMC GBLs issued and mismatched is overstated because the numbers include "M" series GBLs erroneously printed and issued by the Army in Europe for November and December 1996.

The MTMC personnel estimated 35 million freight GBLs reported that had not been issued by MTMC. There are no estimates on the number of GBLs not reported to MTMC or invalid GBL numbers being used or accessible to transportation offices. Currently, DoD is paying approximately 1 million freight GBLs per year. If this rate were to continue, it would take more than 35 years to purge DoD of all the GBLs issued by General Services Administration.

Revised Pre-payment Validation Plan

By May 31, 1996, GBL-ITS was established and Indianapolis began to validate paper freight GBLs prior to payment. Prior to December 1996, there had been minimal progress on the implementation of GBL validation. Twice implementation target dates had not been met. As has been discussed, the original implementation date of May 31, 1996, was missed because the GBL-ITS files were inaccurate and the payment offices did not implement GBL validation and suspend payments for mismatched GBLs. As a result, the transportation community established a new target date of October 1, 1996. Because of the lack of progress in implementing GBL validation, we met with DoD transportation officials in September 1996 and the Under Secretary of Defense (Comptroller) in December 1996 to discuss the problems. We proposed that DoD should revise its GBL validation plan to address the implementation problems.

September 1996 Meeting. On September 9, 1996, we informed the Under Secretary of Defense (Comptroller), DFAS, Defense Logistics Agency, and the transportation community that an excessive mismatch rate still existed. DFAS personnel stated that the mismatch rate was too high to suspend payments and to perform research. At the meeting, representatives from DFAS, MTMC, Defense Logistics Agency, and the Military Services said they would take action to correct the GBL-ITS files.

Under Secretary of Defense (Comptroller). On December 5, 1996, we met with the Under Secretary of Defense (Comptroller), the Assistant Deputy Under Secretary of Defense (Transportation Policy), and representatives of DFAS and MTMC to discuss the results of this audit. At the meeting it was concluded that GBL-ITS was inaccurate and incomplete. The primary causes discussed were:

- o the need for increased cooperation and participation between the Military Services, Defense Logistics Agency, MTMC, and DFAS for pre-validation to work; and
- o the lack of central direction and management over implementing the Assistant Deputy Under Secretary of Defense (Transportation Policy) guidance.

Summary of Corrective Actions

The Under Secretary of Defense (Comptroller) instructed DFAS and MTMC to develop a plan addressing the issues discussed at the December 5, 1996 meeting. The plan was to be submitted by December 17, 1996. Validation and suspension of payments for mismatched GBLs was to be implemented by March 30, 1997. The plan was to address the following issues:

- o assigning primary responsibility for implementation of GBL validation,
- o establishing goals and milestones for customer participation,
- o establishing performance measures to trim the mismatch rate to an acceptable level,
- o establishing penalties and incentives,
- o implementing pre-payment validation of household GBLs, and
- o providing for new GBL forms and numbers to be re-issued if acceptable pre-payment validation rates are not obtained within a reasonable time.

Progress has been made in implementing the paper GBL pre-payment validation plan since the December 5, 1996, meeting with the Under Secretary of Defense (Comptroller). All three transportation offices are now performing pre-payment validation of freight and personal property GBLs. However, the transportation payment offices have not suspended payments, nor have they performed research on mismatched GBLs. DFAS personnel informed us that it was too

costly to perform the research of mismatched GBLs. DFAS has not assessed penalties against transportation offices which caused the mismatches. In accordance with the December 1996 plan, the assessment of penalties was to fund the DFAS cost of performing the research.

We calculate that DoD pays \$1.8 billion for over 2 million GBLs annually of which 90 percent or more were received as paper invoices by the three payment offices. Until the transportation offices suspend payments and perform research on mismatched GBLs, a substantial number of GBL payments will continue to be made without verification in accordance with the Assistant Under Secretary of Defense (Transportation Policy) guidance of February 6, 1996.

Recommendations for Corrective Action

Because MTMC and DFAS are working together to research mismatched GBLs, the recommendations have been redirected to both the Director, Defense Finance and Accounting Service, and the Commander, Military Traffic Management Command. We recommend that the Director, Defense Finance and Accounting Service, and the Commander, Military Traffic Management Command:

- 1. Suspend payments on mismatched Government Bills of Lading until the Government Bills Lading have been researched and found to be valid.**

Management Comments. The Deputy Director for Finance, Defense Finance and Accounting Service, concurred with the intent of the recommendation to suspend payments on mismatched GBLs until GBLs have been researched. The Deputy Director stated that DFAS sends mismatched GBL numbers to MTMC for research. DFAS is not automatically suspending payment of mismatched GBLs because it requires an extensive manual effort. If MTMC notifies DFAS that a GBL is invalid before it is paid, then DFAS suspends the payment. If notice is received that a GBL is invalid after it is paid, then DFAS recoups the funds or makes an offset of future payments. The full text of the Defense Finance and Accounting Service comments are in Part III of this report.

Audit Response. The Deputy Director's comments were not responsive to the recommendations. The comments that MTMC is researching the DFAS mismatches partially meets the intent of the recommendation to suspend payments on mismatched GBLs until the GBLs have been researched and found to be valid. However, MTMC is only performing partial research of those GBLs when it is able to identify the issuing transportation office based on the GBLOC. A copy of the actual GBL is not being compared to determine the actual or correct transportation office when the incorrect GBLOC has been reported. The Indianapolis paper freight GBL mismatch for the manual GBLs processed was 754 of 22,334, or 3 percent for the period of September 8 through September 19, 1997. DFAS and MTMC must continue to reduce the number of mismatched GBLs if the program is to be successful. Also, more detailed research is needed if the mismatch rate is to meet the DFAS one percent goal. According to MTMC personnel, MTMC has not performed research on the Albany and Norfolk GBLs.

2. Develop and assess a penalty to charge the transportation offices when a mismatched Government Bill of Lading has to be researched and is found to be valid when the Government Bill of Lading number is not in the Government Bill of Lading-Issuing and Tracking System files or the transportation office uses an incorrect Government Bill of Lading Organization Code.

Management Comments. The Deputy Director concurred with the intent of the recommendation to develop and assess a penalty to charge transportation offices when a mismatched GBL has to be researched and is found to be valid. The Deputy Director stated that the cost for rework efforts are already recouped in the DFAS composite billing rate. To assess an additional charge would create an additional administrative burden. The mismatched research is performed by MTMC and not DFAS. The full text of the Defense Finance and Accounting Service comments are in Part III of this report.

Audit Response. The Deputy Director's comments to the recommendation were not responsive. The purpose of the recommendation was to reimburse the payment offices by the transportation offices for the additional effort it would require to research the unmatched GBLs. The additional research effort could be achieved by contract or temporary hires until such time as controls over GBLs are improved. In addition, the administrative burden should be costed into the penalty charge. If properly done, the payment offices should not incur any more delays in processing GBL payments than currently exist. As a result, the DFAS burden would be passed onto the transportation offices that have not accurately reported GBL and GBLOC numbers. The principal objective is not only to recover costs, but to disincentivize failure to apply requisite controls, thus passing the problem along to DFAS. This can be done most effectively by a penalty, not just cost recovery that is buried in a composite billing rate.

We request the Deputy Director, Defense Finance and Accounting Service, to reconsider his position and provide additional comments on the recommendations. We also request that the Commander, Military Traffic Management Command provide comments on the recommendations.

Other Management Comments to Recommendations 1 and 2. Unsolicited comments were provided by the Defense Logistics Agency and by the Commander, Marine Corps Logistics Base, Albany (the Commander), disagreeing with the recommendations. The Defense Logistics Agency provided comments to the draft audit report. Both DLA and the Commander disagreed with the recommendation to DFAS to suspend payments for mismatched GBLs. The DLA also stated that the recommendation could lead to fostering an adversarial relationship with the carrier industry. The full text of the Defense Logistics Agency comments are in Part III of this report.

The Commander stated that, since Albany has started to validate GBLs, Albany has found 1,512 GBLs that did not match the GBL-ITS. Albany attributed the mismatches to GBL-ITS being incomplete or transportation offices failing to report the GBL numbers. The Commander said that GBLs issued by Marine Corps transportation offices overseas were not in the GBL-ITS. He disagreed with the recommendations to suspend payments and research mismatched GBL numbers stating that Marine Corps Logistics Base, Albany, did not have the resources to research all the mismatched GBLs. In addition, the Commander stated that the transportation offices should not be assessed a penalty for an

MTMC error. Instead the Commander proposed that MTMC develop a program to be used by all the payment offices to validate GBLs. The full text of the Commander's comments is in Part III of this report.

Audit Response. We disagree with the comments provided by the Defense Logistics Agency and the Commander that implementing the recommendations would adversely affect the carrier industry or the payment offices. The purpose of the recommendations were to formalize the controls established by the Under Secretary of Defense (Comptroller). The intent of the recommendation is to reimburse the payment offices by the transportation offices for the additional effort it would require to research the unmatched GBLs. The additional research effort could be achieved by contract or temporary hires until such time as controls over GBLs are improved. If properly done, the payment offices should not incur any more delays in processing GBL payments than currently exists. As a result, the DFAS burden would be passed on to the transportation offices that have not accurately reported GBL and GBLOC numbers.

In addition, the Marine Corps GBL numbers that were issued by overseas transportation offices should be in the GBL-ITS files. By May 31, 1996, all transportation payment offices were to perform a validation before paying the carrier to ensure that each GBL submitted for payment matched the GBL-ITS files by GBLOC and corresponding GBL number. As discussed in our report, if the GBL did not match the information in the GBL-ITS, the GBL payment would be suspended until the GBL was researched to determine whether it was valid. The Assistant Under Secretary of Defense (Transportation Policy) guidance of February 6, 1996, did not exempt overseas shipments. We do agree with the Commander that one program for the three payment centers would be more efficient. The goal of one program will be achieved when DFAS consolidates all three GBL payment functions at DFAS Indianapolis Center in FY 1998.

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Part II - Additional Information

Appendix A. Audit Process

Scope

We reviewed the efforts by the MTMC, DFAS, Defense Logistics Agency, and the Military Services to plan and coordinate functions necessary for the validation process of paper GBLs for freight and personal property shipments. We specifically reviewed the pre-payment validation process at the three DFAS transportation payment offices. The review included procedures for suspending payment on paper GBLs that did not pass the validation process. We also visited or contacted transportation offices at DoD installations to determine whether they were in compliance with the February 6, 1996, guidance issued by the Assistant Deputy Under Secretary of Defense (Transportation Policy).

From June 1 through September 30, 1996, DFAS paid 680,000 freight and personal property GBLs for \$600.3 million. GBLs are paid either electronically or manually. If an invoice for a GBL payment was received by DFAS as hard copy, the GBL was processed manually for payment as a paper GBL. Of the 680,000 GBLs, 629,442 were received as paper GBLs and payments totaled \$580.3 million. The review did not include freight GBLs paid by electronic data interchange.

Methodology

We visited and obtained information from the Defense Transportation Reengineering Steering Group (Steering Group) and Operation Mongoose, the fraud prevention and detection function of DFAS. The information from the Steering Group pertained to the procedures, status, and responsibilities of implementing pre-payment validation of paper GBLs. The information from Operation Mongoose pertained to ongoing efforts of transportation payments.

DoD has 3 payment offices that make GBL payments for over 1,000 MTMC estimated transportation organizations. Not all transportation organizations are DoD; Government contractors and other Federal agencies also issue GBLs to be paid by DoD. The following table shows the transportation organizations that are supported by DoD payment offices.

Table A. Transportation Office Component by Payment Office

<u>DoD Component or Class of Transportation Organizations</u>	<u>Payment Office-Albany</u>	<u>Payment Office-Indianapolis</u>	<u>Payment Office-Norfolk</u>
Army		X	
Navy			X
Air Force		X	
Marine Corps	X		
Defense agencies		X	
Government contractors		X	
Other Federal agencies		X	

Payment Offices. Review of the pre-payment validation process was to determine whether the three payment offices were validating paper GBLs before payment. The review included interviewing responsible personnel. We also reviewed procedures and policies for ensuring the validity of GBLs processed. The evaluation included reviewing and monitoring computer information developed by Indianapolis on the matching of paper freight GBLs to the GBL-ITS. The review encompassed 384,000 paper freight GBLs processed by Indianapolis from June 1 through December 31, 1996. The review included developing a file of 227,442 paper freight GBLs processed by Indianapolis from June 1 through September 30, 1996, and analyzing the data contained in that file. The results of the Indianapolis GBL pre-payment validation were used to analyze the accuracy of the GBL-ITS.

Transportation Offices. The audit included visits to or contacts with 11 transportation offices located at DoD installations. The review included interviewing responsible personnel. We contacted 10 transportation offices directly and were provided information by the Air Force Audit Agency on one other transportation office visited. Our focus was to determine which transportation offices had properly reported GBL data and why errors existed in the GBL-ITS files.

Use of Computer-Processed Data. We used totals of freight and personal property GBLs processed by the three payment offices from June 1 through September 30, 1996, for background information. Except for personal property GBLs processed by Indianapolis, the data reported by the payment offices were based on computer-processed information. Indianapolis provided us with an estimate of the number of personal property GBLs and payments it processed.

We did rely on a file from an off-line system of freight paper GBLs processed from June 1 through December 31, 1996, by Indianapolis. This file was titled "Results of Match Between DTRS (Defense Transportation and Reporting System) Processed Paper Freight GBLs and MTMC Freight GBL New Numbers Issued File." This off-line file was developed with data downloaded from the master files of the Defense Transportation and Reporting System at Indianapolis and the GBL-ITS files developed by MTMC.

Defense Transportation and Reporting System. We performed a limited review of the data and found the file adequate for pre-validation of freight paper GBLs. We relied only on the GBL numbers and GBLOCs in the master file for paper GBLs. The Defense Transportation and Reporting System accounted for GBLs as either paper or electronic data interchange and contained only freight GBLs processed by Indianapolis. We reviewed the results of reviews performed by the Quality Assurance Division at the Indianapolis payment office, traced the flow of paper GBLs through the processing, and reviewed computer systems documentation. We also performed limited tests of the data, specifically to include:

- o analyzing the June 1 through September 30, 1996, file of 227,442 paper freight GBLs used for the matching for inconsistencies, and
- o verifying a judgmental sample of 339 GBLs mismatches processed in November 1996.

GBL Issuing and Tracking System. As discussed in this report, the GBL data in GBL-ITS files were not accurate.

Audit Period and Standards. We performed this financial-related audit from October 27, 1995, through February 28, 1997. The audit was made in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Statistical sampling methods were not used. Accordingly, we included such tests of management controls as were considered necessary.

Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, has been revised as DoD Directive 5010.38, "Management Control Program," August 26, 1996. The audit was performed under the April 1987 version of the directive which requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of management controls over the validation of paper GBLs prior to payment. We specifically reviewed the implementation of the DoD plan to compare GBLs on hand, issued, lost, stolen, or missing reported by transportation offices to the paper GBLs processed for payment by DFAS. We also reviewed the results of any self-evaluation of those management controls for the Office of the Secretary of Defense, DFAS, and the U.S. Transportation Command.

Adequacy of Management Controls. We identified material management control weaknesses for DoD as defined by DoD Directive 5010.38. DFAS, MTMC, and transportation offices had not adequately implemented the DoD plan to validate paper GBLs prior to payment. The payment offices did not perform adequate pre-payment validations or research paper GBLs that had not matched the numbers and GBLOCs in the GBL-ITS files. The GBL-ITS files

were inaccurate because transportation office and General Services Administration data used to develop the files were either incomplete or inaccurate.

The recommendations made in this report along with management actions already agreed to and in process should correct the management control weakness. A copy of this report will be provided to the senior official responsible for management controls in DFAS, the U.S. Transportation Command, MTMC, and the Under Secretary of Defense (Comptroller).

Adequacy of Management's Self-Evaluation. The audit identified a material weakness in the management controls as discussed above. The Office of the Secretary of Defense, DFAS, and the U.S. Transportation Command management control program did identify the GBL payment system as a material control weakness. DFAS identified transportation payment processing as an assessable unit. However, the planned management actions to correct the weakness did not address pre-payment validation of paper GBLs.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD and the General Services Administration. Further details are available on request.

Prior Audits and Other Reviews

There were no other audit reports or studies related to the audit objective that had been issued in the past 5 years.

Appendix B. Results of Transportation Office Reviews

Department of the Army

Fort Belvoir, Virginia. The transportation office at Fort Belvoir uses an automated system to prepare its GBLs. The GBL-ITS file contained all of the automated GBL numbers reported by Fort Belvoir, except four voided automated GBL numbers. The transportation office also had 2,635 manual GBLs (2,446 issued, 106 void, and 83 on hand) that were not in the GBL-ITS files. The manual GBLs were kept for contingency purposes, in case the automated system was down and could not be used to process a shipment. Fort Belvoir did report the manual GBLs to MTMC; however, they were not included in the GBL-ITS file. We were unable to determine the reason why the pre-numbered preprinted GBLs were not in the GBL-ITS file. MTMC has subsequently corrected the omission.

Fort Eustis, Virginia. The transportation office issued only freight GBLs. There were 3 manual GBLs that had been "void" and 71 manual GBLs on hand that were not in the GBL-ITS file. In addition, Fort Eustis had not reported its 1,000 automated GBLs and 27 "void" numbers to MTMC; however, all the numbers were in the GBL-ITS files. Transportation office personnel said they believed that the request for GBL numbers was for paper GBLs and not for automated GBL numbers. MTMC personnel stated that they may have obtained the automated GBL numbers from the General Services Administration log.

Fort Meade, Maryland. The transportation office at Fort Meade uses an automated system to produce GBLs. Fort Meade obtains a range of GBL numbers, as opposed to paper GBL forms. All of the GBL numbers that Fort Meade reported to MTMC were contained in the GBL-ITS file under the Fort Meade GBLOC. The GBL-ITS file contained an additional 1,000 automated GBL numbers under the Fort Meade GBLOC that had not been reported to MTMC. Personnel at MTMC stated that in developing the GBL-ITS files, they used the GBL issue ledger that the General Services Administration used to track GBL numbers. We obtained a copy of the General Services Administration ledger and found that the GBL numbers in question were issued to an unidentified organization at Fort Meade. However, the General Services Administration had not recorded the GBLOC. The Fort Meade transportation office had no record of them. We were then informed that the 1,000 automated numbers belonged to the National Security Agency, which is also located on Fort Meade.

Department of the Navy

Fleet Industrial Support Center, San Diego, California. The Fleet Industrial Support Center maintained two separate shipping organizations, one for freight

and the other for personal property. The freight organization maintained adequate accountability and controls while the personal property organization's accountability and controls were inadequate.

Freight Shipping Organization. The freight organization was aware of the new GBL control procedures and provided the required GBL data to MTMC. The freight site followed the new procedures issued by the Assistant Deputy Under Secretary of Defense (Transportation Policy) and directed by the Navy Transportation Supply Center. The freight organization maintained good accountability and controls over paper GBLs. An automated system was not used by the freight organization.

Personal Property Shipping Organization. The personal property organization, however, did not maintain adequate accountability and control over its GBLs. The personal property organization had both an the automated Transportation Operational Personal Property Standard system to produce laser generated GBLs, and preprinted GBLs. The personal property organization had no record of how many GBLs they had on hand or should have on hand. There was no record of the total number of paper GBLs on hand or the sequential numbers of GBLs assigned.

Personal property employees were not aware of the new GBL procedures issued by the Assistant Deputy Under Secretary of Defense (Transportation Policy) nor the instructions issued by the Navy Transportation Supply Center to all Navy freight shippers and personal property shippers that implemented the Office of the Secretary of Defense policy. Consequently, the personal property employees were not aware of the data request to be sent to MTMC. They also were not aware of the messages that explained the new GBL controls for both freight and personal property. They were aware that MTMC was the new issuing agency for GBLs and not the General Services Administration.

There were no controls built into the Transportation Operations Personal Property Standard system to prevent duplication of GBL numbers. Passwords were assigned to every person in that work area. It is our opinion that erroneous GBLs could be easily obtained and submitted due to the lack of security controls with Transportation Operations Personal Property Standard system and the paper GBLs. The controls of GBLs issued by Transportation Operations Personal Property Standard system could be circumvented.

The personal property employees inventoried the hard copy GBLs, at our request. The inventory yielded 41 boxes containing 14,350 pre-numbered preprinted GBLs with one box out of sequence. The personal property site also had 10 boxes containing 3,500 unnumbered preprinted GBLs. These GBLs could be used either for freight or for personal property shipments depending on the GBL number that would be assigned. A freight GBL has only one alpha character; whereas, a personal property GBL has two alpha characters.

As a result, the personal property organization had an excess of about 16,000 hard copy GBLs instead of the 1,900 copies needed based on Navy guidance. The Navy instructed shipping offices to retain only a 2-month supply of hard copy GBLs when an automated system was used to produce GBLs. Because the personal property organization had an automated system, the paper GBLs should have been limited to a 2-month supply.

Department of the Air Force

Andrews Air Force Base, Maryland. The transportation office reported two ranges of GBL numbers. One range of 350 GBL numbers was for paper GBLs, and the other range was for 502 GBL numbers used in the automated system. This second range of numbers matched the data contained in the GBL-ITS files. However, the numbers assigned for the automated system at Andrews AFB in the GBL-ITS file contained 3,000 numbers more than reported to MTMC. Furthermore, there was another range of 1,000 numbers assigned to the Andrews AFB GBLOC that the transportation office did not report because MTMC used the General Services Administration log to partially create the GBL-ITS files. This range of numbers may have been assigned to a tenant organization on Andrews AFB and was assigned in error to the Andrews AFB GBLOC.

Dover Air Force Base, Delaware. The transportation office issued over 750 GBLs that were assigned to another GBLOC, according to the GBL-ITS file. According to Air Force personnel, the transportation office used an automated system to prepare and issue freight GBLs. The automated system kept printing out GBLs in excess of the GBL numbers assigned to Dover AFB.

Langley Air Force Base, Virginia. Langley AFB reported four ranges of automated GBL numbers in response to the MTMC data call. GBL-ITS files did not include 2,000 automated GBL numbers assigned to the Langley AFB GBLOC. Further review of the GBL-ITS disclosed that these 2,000 GBL numbers had been combined with a range of GBL numbers that was assigned to Kelly AFB. We then reviewed the General Services Administration issuance log and found that Langley AFB was issued these 2,000 GBL numbers on February 9, 1995; however, the entry directly above was for a range of numbers including the same 2,000 GBLs issued to Kelly AFB. The MTMC extracted this information from the General Services Administration log and inadvertently combined the two GBL number ranges when it entered the information into the GBL-ITS files. Another range of 50 GBL numbers was shown as being assigned to Langley AFB in GBL-ITS files but not reported by the Langley AFB transportation office. However, these 50 GBL numbers had not been issued to Langley AFB.

Kelly Air Force Base, Texas. The transportation office informed us that they were not aware of the MTMC data call. As a result, they had not reported any GBLs or GBL numbers. Although MTMC corrected GBL-ITS files for Langley AFB GBL numbers, the GBL-ITS file discrepancies remained for GBLOCs and GBL numbers assigned to Kelly AFB. MTMC either used the General Services Administration log of GBL numbers which was in error or picked up incorrect GBLOCs. Kelly AFB was assigned three separate transportation offices with unique assigned GBLOCs. The following table shows the number of GBL numbers originally assigned to Kelly AFB and the audit results.

Table B. Comparison of the Number of GBLs Reported in GBL-ITS and Audit Results for Organizations at Kelly AFB

<u>Assigned GBLOC</u>	<u>Location and Transportation Office</u>	<u>GBL-ITS File Prior to Audit</u>	<u>GBL Numbers per Audit</u>	<u>Over (Under) Stated</u>
HAFQ	Procurement Traffic, Kelly AFB	17,300*	300	17,000
HBFK	Aerospace Fuels Management, Kelly AFB	2,750	2,750	0
HDSQ	Defense Distribution Depot Kelly AFB	<u>62,000</u>	<u>84,460</u>	<u>(22,460)</u>
	Totals	82,050	87,510	(5,460)

* Does not include the 2,000 GBL numbers assigned to Langley AFB.

Procurement Traffic. The Procurement Traffic area was using the wrong GBLOC and automated GBL numbers. The GBL-ITS file had 17,000 GBL numbers assigned to the Procurement Traffic area although the GBL numbers were reported by the Defense Distribution Depot Kelly. Also, 2,000 GBL numbers were actually assigned to Langley AFB (see the previous paragraph on Langley AFB). When they were notified, MTMC stated they would issue new GBL numbers for Procurement Traffic area and cancel the GBL numbers being used for the Defense Distribution Depot Kelly; however, MTMC did not cancel the GBL numbers for Aerospace Fuels Management.

Aerospace Fuels Management. The Aerospace Fuels Management area was using 6 ranges of automated GBL numbers for its GBLOC and had 350 more GBL numbers than was shown in GBL-ITS files. None of these automated GBL numbers were reported to MTMC and were not originally in GBL-ITS files. The GBL-ITS files have been corrected to reflect these GBL numbers.

Defense Distribution Depot Kelly Air Force Base. GBL-ITS files understated the number of GBLs assigned to the Defense Distribution Depot Kelly by 22,460. The depot is a Defense Logistics Agency organization located on Kelly AFB. The GBL-ITS files showed a GBL range of 17,000 numbers as being assigned to Procurement Traffic that were on hand and available for issue. However, documentation submitted by Defense Distribution Region West shows that the 17,000 GBLs belong to the Defense Distribution Depot Kelly. An additional 5,460 GBL numbers had not been reported and entered into GBL-ITS files.

Defense Logistics Agency

Defense Contract Management Command, San Diego, California. The Defense Contract Management Command at San Diego has maintained adequate security and accountability over paper GBLs and automated GBL numbers. The Defense Contract Management Command at San Diego had reported all its GBLs on hand, issued, and lost or destroyed.

Defense Distribution Depot, San Diego, California. The Depot at San Diego had maintained adequate security and accountability over GBLs and GBL numbers and had reported its GBLs on hand, issued, and lost or destroyed. However, the GBL-ITS file showed that the depot had three assigned GBLOCs and that the Fleet Industrial Support Center, San Diego and the Naval Supply Center, San Diego shared one of the GBLOCs.

Defense Distribution Depot, San Joaquin, California. The San Joaquin Depot was formerly the Tracy and Sharp Depots that had been consolidated because of base realignment and closure. The depots at Tracy and Sharp had each requested 1 million GBL numbers. However, the General Services Administration issued each depot 10 million "K" and "L" series GBLs. When the two depots were consolidated, the Defense Distribution Depot San Joaquin ended up with 20 million GBL numbers assigned. The entire DoD issues only 1 million freight GBLs per year. The GBLOC for Tracy was canceled by MTMC; however, the Tracy GBLOC was included in the GBL-ITS files and had 135,000 GBLs assigned.

Appendix C. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition and Technology
Deputy Under Secretary of Defense (Logistics)
Assistant Deputy Under Secretary of Defense (Transportation Policy)
Director, Defense Logistics Studies Information Exchange
Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Assistant Secretary of Defense (Public Affairs)

Department of the Army

Auditor General, Department of the Army
Commander, Military Traffic Management Command

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Marine Corps

Marine Corps Logistics Base, Albany

Other Defense Organizations

Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Logistics Agency
Director, National Security Agency
Inspector General, National Security Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
General Accounting Office
 National Security and International Affairs Division
 Technical Information Center

Chairman and ranking minority member of each of the following congressional committees and subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on National Security, Committee on Appropriations
House Committee on Government Reform and Oversight
House Subcommittee on Government Management, Information, and Technology,
 Committee on Government Reform and Oversight
House Subcommittee on National Security, International Affairs, and Criminal Justice,
 Committee on Government Reform and Oversight
House Committee on National Security

Part III - Management Comments

Defense Finance and Accounting Service Comments



DEFENSE FINANCE AND ACCOUNTING SERVICE

WASHINGTON, DC 20376-5001

SEP 24 1997

DFAS-HQ/FCC

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT
OF DEFENSE

SUBJECT: Audit Report on Controls Over Government Bills of
Lading (Project No. 6FI-5016)

We are responding to the recommendations given in the draft
audit report on Controls Over Government Bills of Lading (GBL).

Recommendation 1: Suspend payments on mismatched GBLs until
the GBLs have been researched.

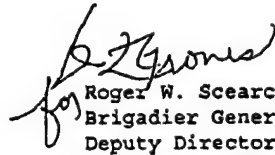
Response: We concur with the intent of the recommendation.
We should not pay invalid GBLs. To preclude this condition, our
procedures are to compare the paper GBLs we receive to the
Military Traffic Management Command (MTMC) master files. We send
the mismatched GBL numbers to MTMC for validation. If we receive
notice from MTMC telling us a GBL is invalid before we pay it, we
suspend the payment. If notification is received afterwards, we
take collection action to either recoup the funds or offset
future payments. For GBLs sent by Electronic Data Interchange,
the match to the master files is done by MTMC before Defense
Finance and Accounting Service (DFAS) receives the GBLs.

To automatically suspend mismatched payments, in our current
systems environment, requires extensive manual effort. When
resources permit, we will implement a change to the automated
system. We will assess the benefits of making changes against
reengineering initiatives. Once the concept for reengineering
defense transportation documentation/financial processes is
complete, we will determine if the change is warranted.
Estimated date to complete assessment is May 30, 1998.

Recommendation 2: Develop and assess a penalty to charge
the transportation offices when a mismatched GBL has to be
researched and is found to be invalid.

Response: We concur with the intent of the recommendation. There is a cost associated with rework efforts. However, we capture the cost of DFAS rework efforts (e.g. duplicate payment) in the composite billing rate we charge to process a payment. The assessment of an additional DFAS charge will create an administrative burden for costs we already recoup. In addition, if a GBL passes the DFAS criteria for payment but does not match the MTMC master files, the research on the validity for payment is done by MTMC. We then suspend or recoup payment based on MTMC's direction. The additional research is done by MTMC, not DFAS. This action is complete.

Our point of contact is Ms. Cheryl Ford. She can be reached on (703) 607-5029.


for Roger W. Searce
Brigadier General, USA
Deputy Director for Finance

Defense Logistics Agency Comments



DEFENSE LOGISTICS AGENCY
HEADQUARTERS
8725 JOHN J. KINGMAN ROAD, SUITE 2533
FT. BELVOIR, VIRGINIA 22060-6221

REPLY
REFER TO

DDAI

JUL 23 1997


MEMORANDUM FOR THE DIRECTOR, FINANCE AND ACCOUNTING
DIRECTORATE, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on Controls Over Government Bills of Lading, 6FI-5016

In response to the above draft report, dated 13 June 1997, we would like to provide the following comments in regards to Recommendation 1 (page 13):

"The recommended DFAS suspension of payment to carriers on mismatched GBLs should be withheld until such time as the GBL mismatch rate is brought to acceptable levels and the GBL Issuing and Tracking System is fully operational. The draft audit cited no cases where the cause of mismatches was attributable to a carrier. If implemented now, this recommendation could lead to fostering an adversarial relationship with the carrier industry."

Should you have any questions, please call Elaine Parker, at 767-6264.


JEFFREY GOLDSTEIN
Chief (Acting), Internal Review

cc:
MMBCA
MMLST

Marine Corps Logistics Base, Albany, Comments



UNITED STATES MARINE CORPS
MARINE CORPS LOGISTICS BASES
814 RADFORD BOULEVARD
ALBANY, GEORGIA 31704-1128

IN REPLY REFER TO:
4600
Code 470
13 Aug 97

From: Commander, Marine Corps Logistics Bases, Albany
To: Inspector General, Department of Defense, 400 Army Navy
Drive, Arlington, Virginia 22202-2884

Subj: AUDIT REPORT ON CONTROLS OVER GOVERNMENT BILLS OF LADING
(GBL) (PROJECT NO. 6FI-5016)

Ref: (a) IG Arlington VA ltr of 13 Jun 97

1. In reply to the reference, the following comments are provided.

a. The Transportation Voucher Certification Branch (TVCB), Albany, Georgia began the pre-payment validation process in December 1996. Since then, TVCB validated 6,860 GBL's. 5,348 GBL's matched, and 1,512 GBL's did not match. A random review of GBL's which did not match found all GBL's which had not been matched were valid. It appears either the Military Traffic Management Command (MTMC) GBL Issuing and Tracking System (ITS) is not complete or the Transportation Office failed to report the GBL number. TVCB does not have the resources available to research 100 per cent of GBL's that do not match.

b. GBL's that are issued overseas are not in the ITS database. In order for the payment centers to pre-validate all GBL's, MTMC needs to incorporate GBL's issued from overseas Transportation Offices into the database.

c. The program used by the payment centers to validate GBL's should be developed by MTMC. TVCB has experienced problems with their locally developed computer program used to perform the pre-payment validation. If all certifying centers are developing their own validating program, there is an obvious duplication of effort that should be stopped.

d. The Audit report recommends to penalize transportation offices when a mismatched GBL has been researched and found to be valid. The Transportation Office should not be penalized if the fault of the mismatch is because of an MTMC error. In that case, MTMC should be penalized.

2. Point of contact is Ms. Paulette Hunter, DSN 567-5675.


K. D. MACHANDE
By direction.

Team Members

This report was prepared by the Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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